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Comptroller of Public Accounts
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LBJ State Office
Building

July 8, 1997

Mr. John P. Galligan
Director, Card Technology Division
Financial Management Service
United States Department of the Treasury
Room 526 , Liberty Center
401 14th Street, S.W.
Washington, D.C. 20227

Dear Mr. Galligan:

We appreciate the opportunity to comment on the draft regulation, 31 CFR Part 207, Direct Federal Electronic Benefits Transfer (EBT) program. As you know, Texas' EBT program, one of the largest in the country, delivers food stamps and AFDC benefits to recipients via the *Lone Star* card. We fully support the federal government's effort to move all payments from paper to electronic. Our state has always been aggressive in migrating as many payments as possible to electronic funds transfer.

We look forward to working with the Treasury on expanding the EBT program to include Direct Federal benefits. If you have any questions, please contact Rebecca Lightsey at 512/475-0545, or Theresa Poon at 512/936-6070.

Sincerely,

Billy C. Hamilton
Deputy Comptroller
Comptroller of Public Accounts

Sincerely,

Tom Phillips
Acting Deputy Commissioner,
Support Services
Texas Department of Human Services

Enclosure

cc: Rebecca Lightsey, Legal Counsel
Theresa Poon, EBT Liaison

207.002

DRAFT
7/3/97

Comments on Direct Federal EBT Program
Department of the Treasury, Fiscal Service, 31 CFR Part 207,
RIN 1510-AA59

The State of Texas files these comments in response to the Department of Treasury's proposed regulations on Electronic Benefits Transfer and Designation of Financial Institutions as Financial Agents. Texas, with the largest operating EBT system in the country, appreciates the opportunity to comment on these regulations.

Texas is interested in these regulations as they relate to the integration of state and federal benefits on a single, integrated platform. In this regard, the state has reviewed the Statement of Work that Treasury has prepared for integration of "cross-over clients." Because the Texas EBT system is provided by a vendor who is not a financial institution, issues may arise with this system that are unique from systems currently operated by a financial institution. These comments address the issues of system integration and oversight where state and federal benefits are combined, and reference the Statement of Work.

1. Texas supports the integration of state EBT systems and direct federal programs where feasible. By combining federal benefits with state benefits, the state and federal government can gain economies of scale, integration of systems, and reduction of overlapping systems and policies. Clients gain the advantages of a single system, with one card and a single set of usage procedures.
2. Texas requests that the regulations be clarified as they relate to programs that become established where federal and state benefits are delivered through a single system. In those systems, please explain any relationship, legal or otherwise, between the state and the federal government on an on-going basis. EBT recipients, in many instances, will be recipients of both state and federal benefits. Is the state required to enter into a formal agreement with the Treasury as they relate to client matters? For instance, if a client disputes the benefit amount available, he or she would not automatically know whether the disputed amount was from the state or the federal benefit. Or, a problem may arise from a transaction funded partially from federal and partially from state funds. What procedures does the Treasury expect to use to such issues?
3. Texas requests that the regulations be clarified as they relate to the Treasury's relationship with the state's EBT vendor, particularly in those instances where the EBT vendor is not a financial institution which has been designated as the financial agent for direct federal benefits. When the Treasury designates a financial institution as the financial agent, the institution will interface with the state's EBT vendor for the delivery of the federal benefits. What role, if any, does the Treasury anticipate with the state's EBT vendor to assure that the requirements of both the Treasury and the state's EBT vendor are met?
4. Texas requests that the regulations be clarified as they relate to the Benefit Security Card service mark. The Statement of Work implies that federal benefits may be added to states' existing cards with no modifications. The proposed regulations require each recipient to receive a card with the Benefit Security Card service mark. If the Benefit Security Card service mark is required for all recipients, state programs will not be able to

add federal benefits on to their existing systems without issuing new cards. The issuance of new cards, with the federal mark, would add significant additional expense to an integration project and would raise the issue of which party pays the cost of the new cards.

5. Texas requests that the regulations be clarified as they relate to the compliance issues. The regulations do not address the role the state would be required to play, if any, in assuring that the financial institution and the EBT vendor remain in compliance with contractual obligations to interface with each other. For instance, if data was not transferred in a timely manner between the financial institution and the EBT vendor, would the state or the Treasury be required to have a role in the resolution of the issue?
6. Texas requests that the regulations be clarified as they relate to clients who change beneficiary status. With the decline of welfare rolls, a significant segment of the client population who may initially receive both state and federal benefits could lose state benefits within a relatively short time period. Would those recipients continue to receive their federal benefits through the state card program?
7. Texas requests that the regulations be clarified as they relate to compliance with state rules and regulations that guide current EBT systems. For instance, how will compliance with the state provisions be ensured? Will any components of the current state EBT structure be required to change when federal benefits are added to the state system?
8. The regulations do not address financial considerations for the addition of federal benefits. Texas recommends that any costs associated with federal benefits be absorbed by the U.S. Treasury or the Financial Agent. Texas requests that the regulations be clarified to ensure states will not be negatively impacted financially due to the addition of federal benefits.
9. The regulations do not address the fees or other costs which will be assessed to the recipients. What guidelines will be used to determine reasonable costs to the recipient to ensure the accounts offered by financial institutions are affordable? In addition, many financial institutions have been reluctant to serve traditionally unbanked customers. What measures will be taken by Treasury to encourage participation by financial institutions who may be skeptical about a relationship with the unbanked?
10. The regulations do not address financial institutions' obligations as they relate to the processing of non-financial data. In the EBT environment, financial institutions will be required to process non-financial data such as representative payee information, payment explanations (e.g. messages explaining cost of living adjustments) as well as financial data. What efforts will be made to encourage financial institutions to adapt their electronic payment systems to meet information processing objectives?